



Internal Audit Report

Fixed Asset Inventories November 2003



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Fulton Brock, Chairman, Board of Supervisors
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2003-04 review of Countywide Fixed Asset Inventories. The audit was performed in accordance with the annual audit plan that was approved by the Board of Supervisors.

The highlights of this report include the following:

- Five of six departments reviewed have an adequate process for conducting year-end inventory counts
- However, five of six departments also had asset issues that require some follow up

Attached are the report summary, detailed findings, and recommendations. We have reviewed this information with appropriate department personnel and appreciate the excellent cooperation provided by management and staff. If you have questions, or wish to discuss items presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

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Executive Summary

Physical Inventory Counts (Page 4)

Five of six County departments tested have developed an adequate process for year-end physical inventories. However, five of six departments also had fixed asset issues requiring follow up. Addressing these issues will decrease the risk that County assets could be lost or misdirected. County departments should address identified issues and provide additional training to affected personnel.

Asset Disposals (Page 7)

Most County department FY 2003 asset disposals tested were appropriately processed and completed. However, 3 of 20 (15 %) assets tested were not properly documented and cannot be effectively accounted for. The lack of documentation puts County assets at risk of being lost or misdirected. County departments should ensure all assets are accounted for and report any assets not located to Risk Management.

Introduction

Background

The Internal Audit Department performed an extensive Countywide Fixed Asset audit in FY 2003. We reviewed all phases of the County's fixed asset cycle and tested, specifically:

- Asset Acquisition
- Asset Maintenance/Stewardship
- Asset Disposal

Our March 2003 audit report contained recommendations for improvements to the County's fixed asset process. One recommendation was that Internal Audit and the Department of Finance (DOF) jointly develop a Fixed Asset Self-Assessment and Training Workshop for all County employees having fixed asset responsibilities. A second recommendation was that Internal Audit perform independent testing of year-end inventory counts for a sample of County departments. The Board of Supervisors approved the audit as part of the FY 2004 Annual Audit Plan.

\$1 Billion in Assets

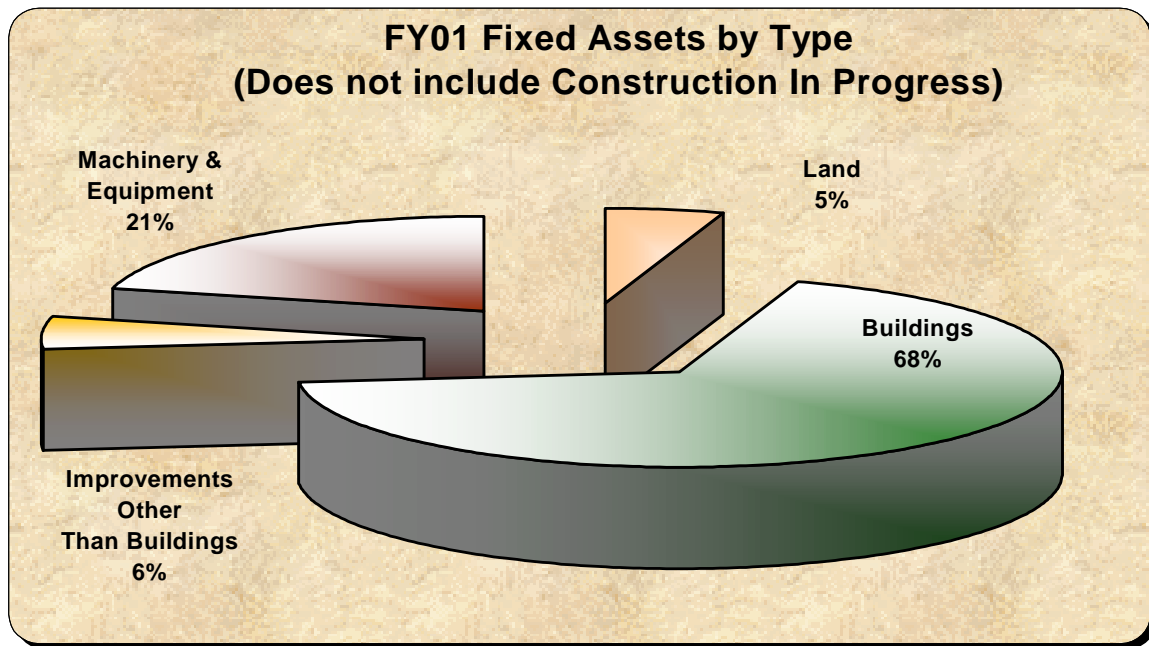
The County has invested more than a billion dollars in its fixed assets, which are defined as items costing more than \$5,000 and lasting more than one year. These assets are tracked by DOF on the automated Fixed Asset Sub System (FASS). While DOF administers the FASS system, and records the receipt, transfer, and disposal of fixed assets, each department is responsible for, maintaining, and validating its assets.

Government Accounting Standards, regulating the County's Comprehensive

Annual Financial Report (CAFR), require fixed assets to be reported in the General Fixed Asset Account Group at acquisition value, which includes costs necessary to bring the assets into production. These costs include legal fees, installation charges, and other related expenditures. Fixed assets are categorized as land, buildings, improvements other than buildings, and machinery and equipment. The FY 2001 breakdown by asset category is depicted on the following page.



Internal Audit has had success addressing Countywide control issues through CSA Workshops



Scope and Methodology

The objectives of our audit were to determine if:

- County departments' year-end inventory counts are complete and accurate
- Asset disposals are completed appropriately and include a document trail sufficient to validate the disposal

This audit was performed in accordance with generally accepted government auditing standards.

Issue 1: Physical Inventory Counts

Summary

Five of six County departments tested have developed an adequate process for year-end physical inventories. However, five of six departments also had fixed asset issues requiring follow up. Addressing these issues will decrease the risk that County assets could be lost or misdirected. County departments should address identified issues and provide additional training to affected personnel.

Applicable Standards

The County's Mission is to provide fiscally responsible services to citizens. To help complete this mission, the Department of Finance (DOF) requires departments to validate their fixed assets at the close of the fiscal year.

Departments Tested

We selected six County departments for physical inventory testing. Four were selected because of the large number of fixed assets they oversee, and two departments were picked at random. The six departments selected were:

- Animal Care & Control
- Flood Control
- Justice Courts
- Public Health
- Superintendent of Schools
- Telecommunications

We reviewed each department's process for conducting a year-end inventory to ensure appropriate procedures and controls were in place. We also selected a sample from each department's fixed asset listing and physically verified the assets' existence.

Although most County departments tested have developed an adequate process for conducting year-end physical inventories. We found minor issues such as incorrect location codes, incomplete descriptions, and missing asset tags in all six areas tested. In addition, five of six



Because these Flood Control ALERT stations were purchased in component parts, only 17 of 290 were reported on the FASS.

departments had issues in their year-end inventory process that require some level of follow up. The results of our testing are summarized in the table below.

Year-End Physical Inventory Testing Summary

DEPARTMENT	PROCESS WEAKNESSES	TOTAL ASSETS	SAMPLE SIZE	EXCEPTIONS
Animal Care & Control	None	92	25	6

The six assets were animal cages that affix to the Animal Care & Control (AC&C) trucks. Equipment Services indicated the cages would have been sold at the same time the trucks to which they were affixed were sold. Trucks were taken off the FA listing. Cages were left on, in error. AC&C indicated the Fixed Asset (FA) listing would be appropriately updated.

DEPARTMENT	PROCESS WEAKNESSES	TOTAL ASSETS	SAMPLE SIZE	EXCEPTIONS
Flood Control	No physical validation No segregation of duties	290	25	None

One issue came to our attention that was not a part of the sample count. Flood Control employs 277 ALERT stations that have a value over \$5,000 per unit. However, they were purchased in component parts (costing less than \$5,000) and assembled, causing all but 17 to be left off the FASS. Although Flood Control has a record of all the stations, they should also be added to the FASS.

DEPARTMENT	PROCESS WEAKNESSES	TOTAL ASSETS	SAMPLE SIZE	EXCEPTIONS
Justice Courts	None	22	22	None

One asset, a security metal detector, had an incorrect fixed asset number.

DEPARTMENT	PROCESS WEAKNESSES	TOTAL ASSETS	SAMPLE SIZE	EXCEPTIONS
Public Health	None	75	25	1

The exception relates to an IT server. Some paperwork was submitted by Public Health to the Surplus Warehouse when disposing of the server. However, the paperwork did not contain a FA number, and the disposal was apparently not communicated to DOF. The exception brings up several issues in the disposal process that will be addressed in the Fixed Asset Self-Assessment Workshop.

DEPARTMENT	PROCESS WEAKNESSES	TOTAL ASSETS	SAMPLE SIZE	EXCEPTIONS
Superintendent of Schools	None	10	10	None

No significant issues were noted in the review of the Superintendent of Schools.

DEPARTMENT	PROCESS WEAKNESSES	TOTAL ASSETS	SAMPLE SIZE	EXCEPTIONS
Telecom	None	86	25	8

The exceptions relate to eight assets on the FASS listing, which were not located during the year-end count: five assets that the department indicates were transferred or disposed, but for which no supporting documentation was available; two assets the department reports were transferred in 1996, but are still on the FASS; and, one asset, which the department indicates was transferred to the state along with the Department of Medical Eligibility function.

Countywide Issue

Almost every County department or office has fixed asset responsibilities. No individual audit exception, noted from our test sample, presents a significant risk to the County. However, the prevalence of fixed asset issues indicates an opportunity for Countywide training that would educate employees and improve fixed asset accountability.

Recommendation

Affected County departments should:

- A. Resolve issues requiring follow up.

All County departments should:

- B. Review fixed asset maintenance and disposal procedures.
- C. Participate in the DOF/Internal Audit Fixed Asset CSA workshop.

Issue 2: Asset Disposals

Summary

Most County department FY 2003 asset disposals tested were appropriately processed and completed. However, 3 of 20 (15%) assets tested were not properly documented and cannot be accounted for. The lack of documentation puts County assets at risk of being lost or misdirected. County departments should ensure all assets are accounted for and report any assets not located to Risk Management.

Applicable Standards

Correctly completed asset disposals are an important part of accurate fixed asset inventories. The DOF fixed asset manual includes directions for completing asset disposal forms. The manual requires the forms be processed at the time of the disposal and provides disposal reason codes. Departments should maintain sufficient documentation to validate disposals.

Disposal Testing

We tested asset disposals completed by 11 County departments in the last quarter of FY 2003. This included 81 asset disposals having a dollar value of \$3.8 million. Many of the “disposals” were actually transfers to other departments, and some were transfers to surplus. However, 20 of the disposals, or approximately 25 per cent, contained a reason code of “Other.” This miscellaneous area provides less data on the nature of the disposals and increases financial risk. We focused our testing on these 20 assets.

Asset Disposal Reason “Other”

We found that, with the majority of disposals coded as “Other,” County departments only needed more training or a clearer understanding of the correct way to document their asset disposals. Specific, actual disposal reasons include:

- Assets were transferred to Surplus. Departments did not know that getting rid of an asset by sending it to Surplus is actually a “Transfer” of the asset
- Assets (autos) were sold – Disposal Code should have been “S”
- “Bundled” component assets were disposed together and listed as “Other”

Exceptions

Although most “Other” asset disposals could be explained and reconciled, we could not find documentation to justify three (of 20) asset disposals. The disposition of the assets could not be traced to a surplus form or other documentation that would indicate the ultimate disposition of the assets. Accurate accounting helps protect County assets. If no documentation trail exists, a determination of whether assets have been lost or misdirected cannot be made. The three exceptions are summarized in the table on the following page.

Disposal Exception Summary

DEPARTMENT	ASSET DESCRIPTION	ASSET COST	NET ASSET BALANCE
Sheriff's Office	Video Surveillance System	\$ 20,756.89	\$ 13,301
Clerk of the Superior Court	Minolta DAR 2800	\$ 15,482.16	\$ 0
Sheriff's Office	VHF Video End System	\$ 5,817.06	\$ 3,980

Although these three assets may have been sent to surplus, the lack of an audit trail means we cannot perform further research to determine that for certain.

The Sheriff's Office concurred with the need for more training and a clearer understanding of the County's fixed asset disposal process. The Office will send appropriate personnel to the County's Fixed Asset CSA Workshops to ensure future asset disposals are effectively handled and documented.

Recommendations

Affected County departments should:

- A. Review fixed asset maintenance and disposal procedures.

All County departments should:

- B. Participate in the DOF/Internal Audit Fixed Asset CSA workshop.

Department Response

None of the exceptions noted in this Countywide audit was significant enough to require a formal written response. All exceptions were addressed with appropriate department management verbally and through email.

Follow up on exceptions will take place when the issues are discussed in the Countywide Fixed Asset CSA & Training Workshop that will be held in calendar year 2004.